

A Study of the Contribution of Central Bank of Nigeria and Other Support Institutions to Small and Medium Scale Enterprises in Nigeria

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Abstract

Small and Medium Scale Enterprises are the engine of economic growth. They have been accepted worldwide as instruments of economic growth and development. SMEs not only contribute to improved living standard they also bring about substantial local capital formation and achieve high level of productivity and capability. In Nigeria, Central Banks and Other Support Institutions are the financiers of Small and Medium Scale Enterprises. These institutions have made tremendous efforts towards the realization of sustainable industrial growth of Small and Medium Scale Enterprises in Nigeria. In spite of the contributions of these institutions to facilitate its growth, numerous problems have continued to hinder the optimal performance of the SMEs. This necessitated the study of the contributions of Central Bank of Nigeria and Other Support Institutions to Small and Medium Enterprises in Nigeria.

The paper concluded that Federal Government, Central Bank of Nigeria and Other Support Institutions should address these endemic problems militating against the optimal development of the sub-sector in

order for them to contribute to economic growth and development of the country.

Keywords: Central Bank, Development, Economic Growth, Support Institutions, Small and Medium Scale Enterprises

Introduction

Small and Medium Enterprises occupy a place of pride in virtually every country or state. Because of their (SMEs) significant role in the development and growth of various economics, they (SME) have aptly been referred to as the engine of growth and catalysts for socio-economic transformation of any country (Ihua, 2009). Apulu (2012) opined that SMEs represent a veritable vehicle for the achievement of national economic objectives of employment generation and poverty reduction at low investment cost as well as the development of entrepreneurial capabilities.

Since the adoption of economic reform programme in 1986, there has been a decisive shift from capital projects based on import substitutions to Small and Medium Scale Enterprises with immense potential for developing domestic linkages for sustainable industrial development.

For over two decades, the Central Bank of Nigeria and Other Support Institutions has

been the major financiers of SMEs. They have also been mobilizing efforts towards the realization of sustainable industrial growth and the creation of mass employment through the rapid growth and development of the Small and Medium Scale Enterprises in Nigeria.

This paper will therefore review literature on Small and Medium Scale Enterprises in Nigeria vis-à-vis roles played by CBN and Other Support Institutions in achieving SMEs development in Nigeria.

Literature Review

Many scholars have written on Small and Medium Enterprises in Nigeria. This fact underscores the essence, importance and relevance of this sub-sector in the development of any given economy.

National Council on Industry (1992) defined Small Scale Enterprises as those with fixed assets above #1 million but not exceeding #10million excluding land but including working capital while Medium Scale Enterprises are those with fixed assets, excluding land but including working capital of over #10 million but not exceeding #40million.

This definition was revised in 1996 with Small Scale Enterprises defined as enterprises with total cost above #1 million but not exceeding #40million, with a labour size of between 11 and 35 workers while Medium Scale Enterprises are defined as enterprises with total cost above #150million and a labour size over 100 workers.

Gbolami (2006) et al. (2010) regarded SMEs as firms that have fewer employees and a

lower turnover and assets than large firms such as multi-national companies.

According to Onugu (2005), SMEs are increasingly recognized as the principal means for achieving equitable and sustainable industrial diversification and dispersal. In most countries of the world, SMEs account for well over half of the total share of employment, sales and value added. Udechukwu (2003) emphasised that SMEs constitute the most viable and veritable for self-sustaining industrial development from varied experiences especially in developing countries. He stated further that SMEs in most developing economies represent the sub-sector of special focus in any meaningful economic restructuring programme that targets employment generation, poverty alleviation, food security, rapid industrialization and revisiting rural and urban drift.

SMEs are important economic catalysts in industrialised countries as they are in the developing world. In many developed countries, more than 98% of all enterprises belong to the SMEs sector; 80% of the total industrial labour force in Japan, 50% in Germany and 46% in USA are employed in smaller firms. In USA, small business constitutes nearly 39% to the national income (Udechukwu, *ibid*).

Lukacs (2005) ascertained that in Singapore, 51 % of the total workforce is employed in the SMEs sector and in particular, SMEs in the manufacturing sector account to 15% of the GDP.

He also stated that SMEs account for the largest employers in Hong kong with over 4

million people and in Japan 81% of the employment is in the SMEs sector.

Ongori and Migiro (2010) maintained that in India SMEs have been consistently outperforming large companies on crucial parameters such as the growth in production and growth in employment.

Sharma and Bhagwat (2006) noted that the SMEs sector in India accounts for 40% of industrial production, 35% of the total exports and provides about 80% of employment in the industrial sector.

Abuga (2007) asserted that the significant role played by the SMEs in terms of the development is acknowledged the world over. He also stated that they occupy an important strategic place in economic growth and equitable development in all counties.

In African, SMEs employ more than 40% of all new entrants to the labour force since they tend to be more labour intensive than large firms and are better place to alleviate unemployment (Muuka, 2002)

Similarly, Odeyemi (2003) stated that Nigerian SMEs account for about 70% of industrial employment and well over 50% of the GDP.

SMEs help to promote industrial and economic development through the utilization of local resources .They are also responsible for the production of intermediate goods and transformation of rural technology (Aina, 2007)

The Federal Office of statistics revealed that about 97% of the entire enterprises in Nigeria are SMEs which employ an average of 50% of the working population as well as

contributing up to 50% of the country's industrial output.

In recognition of the crucial role SMEs play in economic growth and development the Bank of Industry granted over seventy percent of entire loan to SMEs in 2006 (Muktar, 2009).

In order to make SMEs more vibrant, the Federal Government of Nigeria has evolved institutions which have mobilised efforts towards the realisation of sustainable SMEs development in the country. They include:

1)The Central Bank:-Central Bank serves as principal agent for promoting improved access to credit for industrial development particularly to Small and Medium Scale industrialists. They provide loans and advances to Small and Medium Scale Industrialists. Central Bank of Nigeria has remained committed to the growth and development of Small and Medium Enterprises in Nigeria. This stance has been successively reflected in the bank's policies over the years. According to Anyanwu (2003), the minimum stipulated percentage was 10 of total credit to indigenous borrowers, which constituted the SMEs. It was raised to 16 and 20 of total loans and advances in 1980 and 1989 respectively. To improve access to finance for SMEs, the Central Bank approved the sum of five hundred million naira debenture stock for SMEs in 2010.Also, this year the governor Central Bank approved the sum of two hundred and twenty billion naira to Small and Medium Scale Enterprises in Nigeria

2) Nigeria Bank for Commerce and Industry:-Nigeria Bank for Commerce and Industry was established jointly by the

federal government of Nigeria and the Central Bank of Nigeria (CBN) in 1978 as the apex institution for financing Small and Medium Scale Enterprises. The rationale for establish for establishing the bank was to bring financial discipline to bear and to hopefully ensure a more efficient utilization of scarce financial resources for the development of viable Small and Medium Enterprises. Bank was also vested with the power to administer the Federal Ministry to Commerce and Industry's special funds for small and medium scale industrialist under a soft loan agreement. Central Bank (Hassan, 2003).

3)World Assisted Bank – Assisted SME II Loan Project :-The World Bank promotes this growth of Small and Medium Scale Enterprises in Nigeria the Federal Government of Nigeria also negotiated additional financial assistance from the World Bank to complement other sources of funds available to Small and Medium industrialists. This was resulted into a loan of \$270 million which was managed directly by Small and Medium Enterprises apex unit with the Central Bank. (Kayode,

Commercial and Merchant Banks' Loan Advances to Small and Medium Enterprises 1993-2000

Year	Total Credit (1)#'M	SME (N=120) (2)#'M	(2)Percentage of (1) %
1992	529998.8'	23893.9	45.08
1993	73245.8	20363.9	27.80
1994	126809.1	26041.8	20.54
1995	171768.2	41534.1	24.18
1996	210381.2	47897.9	22.77
1997	1,100,883.1	176126.8	16.00
1998	1264251.8	201160.6	15.91
1999	402338.1	53213.1	13.23
2000	565871.3	51001.1	9.01

2001).International Finance Corporation also granted 12 billion naira loan to SMEs in Nigeria in 2014 (Fieldwork, 2014).

4) Nigeria Industrial Developmental Bank:- This bank was established in 1962 with the primary mandate of providing medium to long-term loans for investments in industrial activities. It disbursed a total of #174.6 million to SMEs between 1980 and 1988 and was also responsible for the bulk of credit delivery to SMEs under SME II Loans Scheme accounting for more than 80 % of the total number of disbursement under the scheme. NIDB has been merged With similar institutions under the newly established bank of industry.

5) Commercial Banks: The Nigeria Commercial Banks render services and products to SMEs to meet the statutory requirements and also carry out instructions of CBN. They provide financial advice which ensures viability, sustainability and growth of SMEs. The Table below shows the contribution of Commercial and Merchant Banks to Small and Medium Scale Enterprises in Nigeria between 1993 – 2000.

Source: CBN Statistics Bulletin (2003)

Since 2010, Diamond Bank has been partnering with Enterprise Development Centre (EDC) of the Pan Atlantic University, for the provision of support services to SMEs's industrialization in Nigeria. The Bank gave three million to each of prospective Small and Medium Business Industrialists in 2013.(Field Work,2014).However commercial banks which remain one of the biggest sources of funds to SMEs have in most cases, shield away because of perceive risks and uncertainties in the sector.

6)World Assisted Bank – Assisted SME II Loan Project :-The World Bank promotes this growth of Small and Medium Scale Enterprises in Nigeria the Federal Government of Nigeria also negotiated additional financial assistance from the World Bank to complement other sources of funds available to Small and Medium Enterprises. This was resulted into a loan of \$270 million which was managed directly by Small and Medium Enterprises apex unit with the Central Bank. (Kayode, 2001).International Finance Corporation also granted 12 billion naira loan to SMEs in Nigeria in 2014 (Fieldwork, 2014).

7) National Economic Reconstruction Fund (NERFUND):- With the introduction of Structural Adjustment Programme (SAP) in 1986 and the resultant devaluation of the Naira, many Small and Medium Scale Enterprises found it difficult to secure finance for their working capital and investment purpose. The Federal Government set up the National Economic Reconstruction Fund (NERFUND) with the

aim of providing relatively Long term loans (5-10 years) to SMEs at concessionary rate of interest,thereby removing the most formidable handicap to SME development. Between 1990 and 1998 NERFUND disbursed US\$ 144.9 million (Foreign Exchange component) and #681.5 Million (Naira component) to Small and Medium Scale Project. It was merged with two other DFI to form Bank of Industrial in 2001 (Olorunsola, 2001)

8) Bank of Industry:-This is a merger of the former Nigeria Industrial Development Bank, Nigeria Bank for Commerce and Industry and National Economic Reconstruction Fund (NERFUND). It was set up in 2000 with the principal objectives of providing credit to the industrial sector including the Small and Medium Scale Enterprises.

9) People's Bank of Nigeria (PBN):- The was formally commissioned in October 1989.with the objective of meeting the credit needs of the very Small and Medium Scale Enterprises. By 1993,the activities of the bank had extended to all the states of the federation in the bid to achieve a target of 170 branches. The bank's loans were administered to groups of entrepreneurs rather than individuals a deliberate policy based on the “ peer pressure” concept (Olorunsola,2003) .

10) Community Banks:- The CBN facilitated the establishment and the development of the community banks scheme which took off in 1991.The objectives of the community banks include: the promotion of rural development by

providing financial and banking services to communities inadequately supplied with such services. The community banks have since 1991 become one of the financial institutions for assisting Small and Medium Scale Enterprises.

11) Small Scale Industries Credit Scheme (SSICS):- The scheme was established to administer the fund throughout the country. It was formally launched as the Small Scale Industries Credit Scheme (SSICS) in the Third National Plan, 1975-1980. The scheme operated as a match grant between the Federal and State Governments, was designed to make credit available in liberal terms to SMEs and was managed by the State Ministries of Industry, Trade and Cooperative through the Loan Management Committees (LMCs).

12) Rural Banking Scheme:- The scheme was started in Nigeria in 1977 and was basically designed to solve the problems of rural underdevelopment and inadequately of credit to the agricultural sectors and the rural based small-scale industries. The scheme mandated commercial banks in Nigeria to establish branches in the rural areas. By 1989, about 12 years to the life of the scheme a total of 756 new rural bank branches had been opened with the total deposit in all the rural branches amounting to about ₦5.7 billion. This was averaged about ₦7.5 million per branch.

13) Agricultural Credit Guarantee Scheme Fund:- The Agricultural Credit Guarantee Scheme was introduced in 1978 to facilitate the accessibility of credit to the agricultural sector. The decree that established the scheme provided for a fund

of ₦100 million subscribed to by the Federal Government (60%) and the Central Bank of Nigeria (40%). In 2001, the capital base of the fund was increased to 3.0 billion in order to enhance its courage and performance.

The Agricultural Credit Guarantee Scheme Fund has made impact on the extension of credit and to the agricultural sector as the introduction of the scheme in 1978 increased the percentage of commercial banks' loans to the agricultural sector. It has granted over ₦3.3 billion to beneficiaries since inception.

(14) Small and Medium Industries Equity Investment Scheme (SMIEIS):- SMIEIS was formally launched in August 2001. With the introduction of the scheme, it was expected the scheme will facilitate the achievement of higher economic growth of SMEs. The activities targeted under the scheme include agriculture, trading, information technology, telecommunication among others.

In 2002, ₦11.572 billion had been set aside by 77 banks, out of the amount; ₦1.692 billion had been invested through the scheme in Small and Medium Scale Enterprises in Nigeria.

(15) Second Tier Securities Market (SSM):- In order to deal with the bias of the capital market in favour of large enterprises, the Second Tier Securities Market (SSM) was established in 1995 to assist Small and Medium Indigenous Enterprises in accessing fund from the capital market for expansion and modernisation.

(17) Institute for Entrepreneurship and Development Studies (IFEDS):- IFED was established in 1968 within the faculty of

social science, university of Ife (now O.A.U) a pioneer Institute that will look into the massive development of small scale and Medium industries that will create jobs and rapid industrial transformation in Nigeria. The centre has now groomed to a full-fledged centre within the University system.

(18) Project Development Agency (PRODA) Enugu:- PRODA was established in 1970. Its aim was to ensure the development of the nation in technology by producing local materials, equipment and appropriate machinery.

(18) National Directorate of Employment (NDE): NDE was established in 1987 with the aim of reducing unemployment through development of SMEs by designing some programmes. The main objectives of the programmes are to provide training opportunities through the provision of finance and management support service to entrepreneurs.

(19) Investment Information and Promotion Centre: The centre was founded in 1966 as part of Federal Ministry of Industry. The centre provides potential investors (especially SME operators) with useful information on the general economic situation.

(20) Industrial Development Centre (IDC): In 1962, the first Industrial Development Centre was set up in Owerri by the Eastern Nigerian Ministry of Trade and Industry. The aim was to render techno-managerial assistance to SMEs in the states towards establishment of new SMEs and modernization and development of existing SMEs.

Despite the contribution of these institutions to SMEs, there are still many problems facing

Small and Medium Scale Enterprises in Nigeria.

Onugu (2005) identified the major problems confronting SMEs as:

- i. Management problem
- ii. Lack of Access to finance/capital
- iii. Infrastructural problems
- iii. Environment policy inconsistency and bureaucracy
- iv. Multi taxes and levied
- v. Unfair competition
- vi. Marketing related problems
- vii. Non-availability of raw materials locally
- viii. Lack of access to appropriate technology
- ix. High dependence on raw materials with the attendant high foreign exchange.
- x. Weak demand for products arising from low and dwindling consumer
- xi. Absence of long-term finance of fund capital assets and equipment under
- xii. Project finance for SMEs
- Xiii. Widespread corruption and harassment
- Xiv. Weakness in organization marketing, information
- Xv. Lack of scientific and technological know-hoe.
- Xvi. Lack of strategic succession plan.
- Xvii. Lack of initiative and administrative framework to support and sustain SMEs

Development; and

xviii. Lack of suitable training and leadership development

Summary

The Central Bank of Nigeria and Other Institutions has also been involved in development of Small and Business Scale Enterprises in Nigeria. Their contributions have become necessary in order for the economy to grow in sustainable way. They have aided the financing of Small and Medium Scale Enterprises through the use of monetary and policy guidelines to channel credit as well as operation of loan guarantee scheme among others. These contributions have moved SMEs subsector forward but their still exist huge gap which should be filled.

This study reviewed the concept of and importance of SMEs. It did a brief appraisal of the contribution of CBN and Other Support Institutions to SMEs in Nigeria.

It concluded that the Federal Government, CBN and Other Support institutions should address these problems in order to make SMEs more vibrant.

Conclusion

Sequel to review literatures on the subject matter of this paper, it has been discovered that CBN and Other Support Institutions are the financiers of Small and Medium Scale Enterprises. These institutions have made tremendous efforts towards the realization of sustainable industrial growth of Small and Medium Scale Enterprises in Nigeria. In

spite of the contributions of these institutions to facilitate its growth, numerous problems have continued to hinder the optimal performance of the SME due to infrastructural problems, environment problems, multi taxes and levied, unfair competition, marketing related problems, non-availability of raw materials locally, high dependence on raw materials with the attendant high foreign exchange, weak demand for products arising from low and dwindling consumer purchasing power, absence of long-term finance of fund capital assets and equipment under etc.

The paper concluded that Federal Government, Central Bank and Other Support Institutions should address these endemic problems militating against the optimal development of the sub-sector in order for them to contribute to economic growth and development of the country.

Recommendations

In the light of the findings from literature review, the following recommendations are considered pertinent:

- 1) Government should find lasting solution to the state of infrastructural development especially electricity.
- 2) The Central Bank of Nigeria (CBN) and other support institutions should embark on extension sensitization of entrepreneurs on the operation of banks.
- 3) Government and financial institution should develop a holistic approach to scheme initiated by them.
- 4) Interest which disastres people with business ideas should be reduced to a

bearable level so as to make borrowing cheaper.

5) The security situation of the country need to be improved so as to make business more

effective in Nigeria ;and

6) The Central Bank of Nigeria should compel all financial institutions to adhere to adhere

strictly to banking policies and regulations.

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